

# CITY OF ANNAPOLIS, MARYLAND



## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 1999

DEAN L. JOHNSON  
MAYOR

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**CITY OF ANNAPOLIS, MARYLAND**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

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October 15, 1999

The Honorable Mayor and Aldermen  
City of Annapolis, Maryland

In compliance with Section 6.04.020 of the City of Annapolis Charter, I am pleased to submit to you the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 1999.

The purpose of this report is to provide you and the taxpayers of the City of Annapolis with sufficient information to evaluate the City's financial performance during fiscal year 1999. Pertinent highlights of the report are provided to you in this letter.

The responsibility for the accuracy and fairness of the presentation, including all disclosures, rests with the City. I believe the data as presented is accurate in all material respects and is presented in a manner which fairly represents the financial position and results of operations for the various funds. The financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units.

### **INTRODUCTORY INFORMATION**

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the government's organizational chart, and a list of principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the independent auditors' report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

The City has independent jurisdiction over police services, fire suppression and emergency services, inspections and permits, streets and street lighting, storm drains, parks and recreation, planning and zoning, water production and distribution, sewage collection, off street parking and public transportation, and refuse collection. Education is provided by the Board of Education of Anne Arundel County. The City is authorized to issue debt, subject to certain indebtedness limitations, for the purpose of financing its capital projects.

This report includes all funds and account groups over which significant control is exercised by the Mayor and City Council, including services considered to be of a governmental nature and such proprietary funds as provided for by City Statute.

## **Economic Condition and Outlook**

Annapolis is situated on the western shore of the Chesapeake Bay, at the mouth of the Severn River, centrally located east of Washington, D. C. and south of the City of Baltimore. Due to this desirable location, as well as its historic charm, Annapolis has grown steadily during the past few years. Even though the City has little undeveloped land available, continued growth is expected through annexation and re-development.

Annapolis' tourism industry has evolved as the most important, dynamic component of the Annapolis area economy. As home to the U. S. Naval Academy, the Anne Arundel County seat, the State capital, a registered National Historic District, and 17 miles of waterfront, Annapolis attracts an estimated five million visitors a year. While the tourism industry provides a valuable economic benefit, the City must continually manage the growing demand for services, as well as provide a desirable place to live for its residents.

## **Major Initiatives**

As with last year and for the next two years, the City's capital improvement and economic development focus will be on the inner West Street corridor. As the first phase, the Gateway Circle, nears completion, more proposals for development are being assessed and reviewed. The new traffic circle will not only improve traffic flow and correct a failed intersection, but will serve as the redevelopment anchor for the western end of the six block corridor. The City has purchased the necessary land for a new five hundred space parking facility in this corridor and hopes to have the completed design by early 2000. Preliminary drawings for the improved streetscape have been produced and the complete design is well underway. Replacement of 100 year old water lines and 60 year old sewer lines as well as the under-grounding of the overhead utility lines are the key components of the next phases of the West Street project.

The private sector participation in the redevelopment of West Street has been spurred by the City's commitment to revitalizing this area. The recent completion of a Class A office building and the proposed construction of a new hotel, which is in the final permitting stages, are just the beginnings of an improved commercial tax base. At the new Gateway Circle end of the corridor, a preliminary proposal has been put forth for a mixed residential/commercial project on a large, mostly vacant tract of land. Other verbal ideas or expressions of interest have also been addressed to the City by developers and landowners. These private commitments support the City's desire and need to bring this major project to fruition.

The highlighted department for fiscal year 1999 is the Human Resources Department. The Human Resources Department administers those provisions of the City Code dealing with the civil service system. These include appointments and promotions, benefits and wellness, performance and training, individual records, separation, and retirements. The department includes a director and four employees to provide personnel services to the City's five hundred permanent employees. The director serves as chairman of the Risk Management Committee and as liaison to the Civil Service Board and the Public Safety Disability Retirement Board.

The department is responsible for recruiting, examining, and recommending to appointing authorities applicants for authorized City positions. Included in this service is the administering of all entrance and promotional exams and the preparation and maintenance of all hiring and promotional lists. The administration of all employee benefits for insurance and retirement, union contracts, and leave programs are within the purview of the Human Resources Department.

The other major area of responsibility for the department is the planning, implementation, and the coordinating of City-wide training for employees. These training programs include customer service and quality of life mandates, such as affirmative action, fair labor standards, sexual harassment, drug abuse, disabilities, and equal opportunity.

## **FINANCIAL INFORMATION**

### **Accounting System and Budgetary Control**

As set forth more fully in the "Notes to General Purpose Financial Statements", the accounting records for all Governmental Funds are maintained on a modified accrual basis, with the revenues being recorded when measurable and available, and expenditures, other than debt service, being recorded when the services or goods are received and the liabilities are incurred. Accounting records for Proprietary Funds and Fiduciary funds are maintained on the accrual basis. Under this method, all revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of related cash flows.

The City's accounting system has been developed to provide adequate internal controls which are designed to provide reasonable, but not absolute, assurance regarding:

1. The safeguarding of assets against loss from unauthorized use or disposition.
2. The reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and that the evaluation of such costs and benefits requires estimates and judgments by management.

All evaluations of the internal controls are conducted within this framework. The Finance Office believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City utilizes a financial information and accounting system that expands accounting functions to include timely and flexible managerial reporting capabilities. In addition, the system allows the development of adequate internal controls as set forth above.

Budgetary control for all operating budgets is maintained at the fund level and for capital projects at the project level. Encumbrances are recorded for budgetary purposes at the time purchase orders are issued to the vendor and/or contractor. Purchase orders are not issued without prior certification by the Office of Finance that appropriations are available.

### **Fund Descriptions**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equities, revenues and expenditures/expenses. The following funds and account groups are used by the City:

Governmental Funds are those through which most governmental functions of the City are financed. The measurement focus is upon determination of changes in financial position, rather than upon determination of net income. The following are the City's governmental funds:

*General Fund* - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Fund* - The Special Revenue Fund is used to account for Community Development Block Grants received from the Federal Government.

*Capital Projects Fund* - The Capital Projects Fund is used to account for financial resources and expenditures applied to the construction of capital facilities and major purchased items for all governmental fund types.

Proprietary Funds are used to account for ongoing organizations and activities which are similar to those found in the private sector. The following are the City's proprietary funds:

*Enterprise Funds* - The Enterprise Funds are used to account for those activities of the City which are financed and operated in a manner similar to private business enterprises where costs and expenses, including depreciation, are recovered principally through user charges. The enterprise funds used by the City account for the operation and other activities of the City's water system, sanitary sewage collection and treatment system, off-street parking facilities, dock, Market House, transportation system, and refuse collection operation.

*Internal Service Fund* - The Internal Service Fund is used to account for the financing of the City's self-insurance program.

Fiduciary Funds are used to account for assets held by the City in a trustee capacity. The City currently utilizes a Pension Trust Fund to account for pension assets. This fund is accounted for and reported as a proprietary fund since capital maintenance is critical.

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

*General Fixed Assets Account Group* - This account group was established to account for all fixed assets of the City of a stewardship nature (i.e., land, buildings, certain land improvements, furniture, fixtures, vehicles, and equipment), other than those accounted for in the enterprise funds. No depreciation is provided on general fixed assets.

*General Long-Term Debt Account Group* - This account group was established to account for all long-term debt of the City, except that accounted for in the enterprise funds.

## **Governmental Funds Financial Data**

### General Fund - Revenues and other financing sources

General fund revenues and other financing sources totaled \$32,243,163, an increase of 6.4% over fiscal year 1998. This increase was due to significant growth in property tax and state shared intergovernmental revenues. These increases were mostly brought on by continued growth in both the national and regional economy. A summary for FY99 is presented below.

General Fund Revenues and other financing sources	Revenue Amount	Percent of Total	Increase (Decrease) from FY 98
Property Taxes	\$17,795,871	55.2	\$1,282,489
Licenses and Permits	1,272,653	4.0	28,116
Fines and Forfeitures	846,937	2.6	(42,594)
Money and Property	1,652,735	5.1	(448,533)
Intergovernmental	9,122,170	28.3	1,055,653
Current Services	1,552,797	4.8	70,529



<u>\$32,243,163</u>	<u>100.0</u>	<u>\$1,945,660</u>
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General property taxes represented 55.2% of total revenue in fiscal year 1999, compared to 54.5% for fiscal year 1998. Revenues from property taxes increased due to the combination of an increase in assessments and because the City raised its tax rate from \$1.68 to \$1.70 per \$100 of assessed value. The assessed value of real and personal property increased by \$25,018,405 to \$1,008,929,972 for fiscal year 1999. With Anne Arundel County reducing its rate from \$1.37 to \$1.35 and the State of Maryland tax rate remaining steady at \$.21, the total property tax rate paid by a City property owner remained the same at \$3.26 per \$100 of assessed value.

The increase in intergovernmental revenues from 26.6% of total revenues in fiscal year 1998 to 28.3% in fiscal year 1999 was due primarily to an increase in state shared taxes which include highway, admissions, income and hotel/motel. The largest area of growth was income tax, which was due to continued growth in the personal income of City residents and the recognition of capital gains taxes as a result of strong stock market performance.

#### General Fund - Expenditures and other financing uses

A summary of General Fund expenditures and other financing uses for FY 99 is presented below.

Function	Expenditure Amount	Percent of Total	Increase (Decrease) from FY 98
General Government	\$3,828,811	13.2	(\$32,003)
Public Safety	16,279,326	56.0	(42,157)
Community Services	1,603,169	5.5	(99,033)
Public Works	3,024,201	10.4	151,431
Interfund Charges (Credits)	(153,184)	(0.5)	(1,984)
Debt Service	2,148,663	7.4	271,999
Operating Transfers Out	2,335,430	8.0	(453,652)
	<u>\$29,066,416</u>	<u>100.0</u>	<u>(\$205,399)</u>

General Fund expenditures and other financing uses decreased \$205,000 from FY 98. Continued decreases were noted in retirement costs as all pension funds benefitted from higher investment returns. Debt service charges have increased due to the full year effect of the new issue of bonds in May, 1998. Operating transfers to the Capital Projects Fund were also significantly reduced in FY99 to contribute to the overall General Fund decrease.

The fund balance of the general fund at June 30, 1999 was \$13,464,883 as compared to \$10,288,136 at June 30, 1998. \$395,398 is reserved for encumbrances and inventories. \$11,717,676 of the remaining unreserved fund balance of \$13,069,485 has been designated for subsequent years' capital project expenditures as approved in the fiscal year 2000 capital improvement plan. \$339,000 has been designated for contribution to the self-insurance fund if necessary. This leaves an undesignated fund balance of \$1,351,809.

#### Special Revenue Fund

Community Development Block Grant expenditures were \$463,790, including \$137,200 utilized for

capital expenditures. Major program funding included \$183,600 for housing rehabilitation, \$59,000 for community facilities, and \$221,000 for local community organizational support.

### Capital Projects Fund

Expenditures for capital projects amounted to \$5,183,800 in fiscal year 1999. Spending included \$1,965,000 for general government expenditures, \$2,536,300 for road improvements, \$383,000 for public safety equipment, and \$300,000 for general community facilities. Revenues and other financing sources amounted to \$1,273,700, which included \$117,000 from state grants and \$1,146,000 from other operating sources.

## **Proprietary Funds Financial Data**

### Enterprise Funds - Results of Operations

The following table is a summary of the actual operating results to arrive at the net income of the enterprise funds in FY 99. When the amount for grant-funded asset depreciation, which totaled \$517,601, is added back, each enterprise fund, except the Water and Sewer funds, had a net increase in retained earnings. The net increase to retained earnings was \$519,385 for a combined enterprise fund total of \$4,549,474 for the year ended June 30, 1999.

Enterprise Fund	Revenues	Expenses	Income (Loss) Before Operating Transfers	Net Operating Transfers In (Out)	Net Income (Loss)
Water	\$2,657,675	\$3,036,818	(\$379,143)	\$126,619	(\$252,524)
Sewer	3,380,241	3,818,873	(438,632)	(126,619)	(565,251)
Off Street Parking	1,759,402	1,103,395	656,007	10,000	666,007
Dock	742,935	496,926	246,009	-	246,009
Market	117,163	64,307	52,856	-	52,856
Transportation	1,870,719	3,349,971	(1,479,252)	1,179,200	(300,052)
Refuse Collection	2,306,777	2,152,038	154,739	-	154,739
Total Enterprise	<u>\$12,834,912</u>	<u>14,022,328</u>	<u>(1,187,416)</u>	<u>1,189,200</u>	<u>\$1,784</u>

### Internal Service Fund

The City's Self-Insurance Fund had revenues of \$122,500, while net expenses were \$322,100. The resulting decrease of \$199,600 brought retained earnings at June 30, 1999 to \$1,245,000. The City had an independent actuarial analysis done of its Self-Insurance Fund by Tillinghast-Towers Perrin, who determined that current estimated liabilities require that the City designate \$339,000 of the General Fund equity balance for possible future contributions to the Self-Insurance Fund.

## **Fiduciary Funds Financial Data**

### Pension Trust Fund

The Pension Trust Fund ended the year with a fund balance for the Police and Fire Pension plan of \$126,219,500, a net increase of \$10,042,300. The plan's actuarial assets continue to exceed its accrued liability at June 30, 1999.

## **Other Financial Data**

### Debt Administration

The outstanding debt presented in the General Long-Term Debt Account Group and Enterprise Funds at June 30, 1999 was \$17,643,480 and \$17,440,983, respectively. Funding of debt service for the account group is through annual appropriations in the General Fund. Water and Sewer Fund debt service is funded from dedicated revenues consisting of capital facility charges and assessments. Other enterprise fund debt service is funded through operating fees and charges. The City Charter provides that the aggregate amount of bonds and other indebtedness outstanding at any one time may not exceed 10% of the assessable tax base of the City.

### Cash Management

The City maintains separate cash accounts for each fund. Additionally, the City maintains an investment pool that is available to all funds except the Pension Trust Fund, which holds investments separate from other City funds. The City also separates investments of bond proceeds and operating funds.

Except for investments in the Pension Trust Fund, the City is authorized to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, repurchase agreements, certificates of deposit, and the State's local government investment pool. Contractually, the City's Pension Trust investment managers are restricted to investments in domestic common stock, public bonds, real estate and money market investment funds.

In accordance with State of Maryland statutes, all deposits and investments of the City must be fully collateralized, or otherwise insured.

### Risk Management

The City has a full-time risk manager to monitor all areas of liability, including workers' compensation. The manager, in conjunction with a risk management committee with members representing all City departments, recommends policy and implements various training programs to reduce the City's risk of loss.

## **OTHER INFORMATION**

### **Independent Audit**

As required by the City Charter, an annual independent audit has been performed for the fiscal year ended June 30, 1999. The unqualified report of the firm of Lindsey & Salita, LLC is included in the Financial Section of this report.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Annapolis for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1998. This was the eleventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Award for Distinguished Budget Presentation for the annual appropriated budget for fiscal year 1999. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

### **Acknowledgment**

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the effort and dedication of the staff of the Department of Finance. I would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a dedicated and responsible manner.

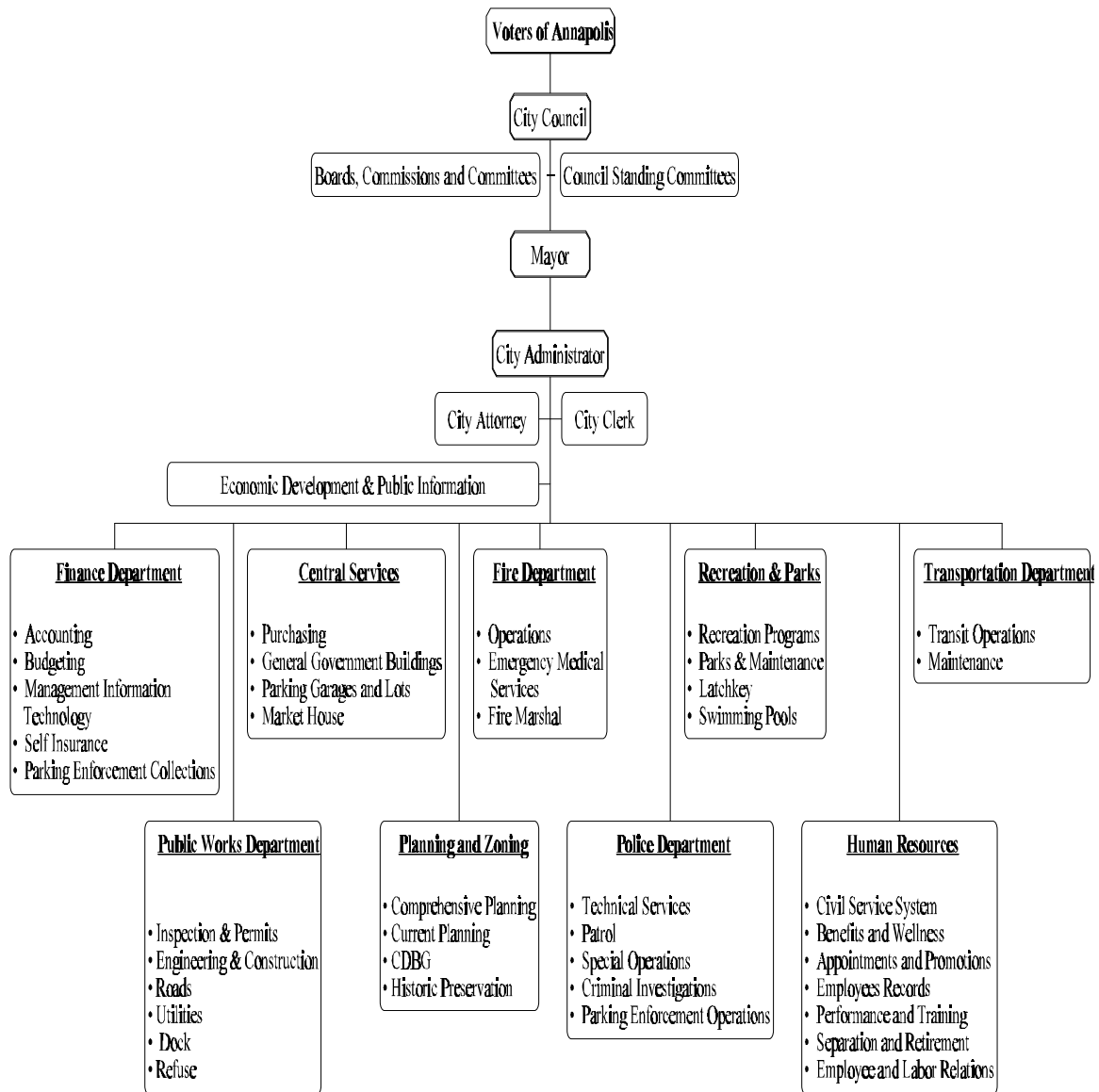
Sincerely,

M. Kathleen Sulick, CPA  
Finance Director



# CITY OF ANNAPOLIS, MARYLAND

## GOVERNMENTAL ORGANIZATION



CITY OF ANNAPOLIS, MARYLAND

LIST OF PRINCIPAL OFFICIALS

June 30, 1999

TITLE	NAME
Mayor	Dean L. Johnson
Alderman - Ward 1	Louise Hammond
Alderman - Ward 2	Sheila Tolliver
Alderman - Ward 3	Samuel Gilmer
Alderman - Ward 4	Joseph Sachs
Alderman - Ward 5	Herbert McMillan
Alderman - Ward 6	Cynthia Carter
Alderman - Ward 7	Michael Fox
Alderman - Ward 8	Ellen Moyer
City Administrator	Vacant
Central Services Director	Emory C. Harrison
City Attorney	Paul G. Goetzke
Finance Director	M. Kathleen Sulick, CPA
Planning & Zoning Director	Jon L. Arason
Director of Human Resources	Kimla L. Milburn
Public Works Director	David L. Smith, PE
Transportation Director	Danielle S. Matland
Recreation & Parks Director	Richard B. Callahan
Fire Chief	Edward R. Sherlock, Jr.
Police Chief	Joseph S. Johnson

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